
March 25, 2002



Financial Management

DoD Payroll Withholding Data for
FY 2000
(D-2002-070)

Department of Defense
Office of the Inspector General

Quality

Integrity

Accountability

Report Documentation Page

| | | |
|---|---------------------------|--|
| Report Date 25032002 | Report Type N/A | Dates Covered (from... to) - |
| Title and Subtitle Financial Management: DoD Payroll Withholding Data for FY 2000 | | Contract Number |
| | | Grant Number |
| | | Program Element Number |
| Author(s) | | Project Number |
| | | Task Number |
| | | Work Unit Number |
| Performing Organization Name(s) and Address(es) OAIG-AUD (ATTN: AFTS Audit Suggestions) Inspector General Department of Defense 400 Army Navy Drive (Room 801) Arlington, VA 22202-2884 | | Performing Organization Report Number D-2002-070 |
| Sponsoring/Monitoring Agency Name(s) and Address(es) | | Sponsor/Monitor's Acronym(s) |
| | | Sponsor/Monitor's Report Number(s) |
| Distribution/Availability Statement Approved for public release, distribution unlimited | | |
| Supplementary Notes | | |
| Abstract We performed this audit in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, which requires DoD and other Government agencies to prepare consolidated financial statements. We performed this audit as a joint agency effort with the Defense Finance and Accounting Service (DFAS) internal review staff, who made a significant contribution by reviewing many sample items. Office of Management and Budget Bulletin No. 01-02, October 16, 2000, requires all Federal agencies to review the retirement, health, and life insurance withholdings and agency contributions during the course of conducting audits and specifies the procedures to apply. The DoD Financial Management Regulation prescribes the requirements of the DFAS payroll accounting system, including an audit trail and an ability to query data. DoD payroll offices remitted more than \$2 billion to the Office of Personnel Management for FY 2000 in retirement, health, and life insurance withholdings and agency contributions for more than 675,000 DoD civilian employees with a total annual payroll of \$25.2 billion. This is the second of a series of reports on payroll withholding for FY 2000. | | |
| Subject Terms | | |

| | |
|---|--|
| Report Classification unclassified | Classification of this page unclassified |
| Classification of Abstract unclassified | Limitation of Abstract UU |
| Number of Pages 61 | |

Additional Copies

To obtain additional copies of this audit report, visit the Inspector General, DoD, Home Page at www.dodig.osd.mil/audit/reports or contact the Secondary Reports Distribution Unit of the Audit Followup and Technical Support Directorate at (703) 604-8937 (DSN 664-8937) or fax (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Audit Followup and Technical Support Directorate at (703) 604-8940 (DSN 664-8940) or fax (703) 604-8932. Ideas and requests can also be mailed to:

OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-4704

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@dodig.osd.mil; or by writing to the Defense Hotline, The Pentagon, Washington, DC 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

| | |
|------|--|
| CSRS | Civil Service Retirement System |
| DeCA | Defense Commissary Agency |
| DFAS | Defense Finance and Accounting Service |
| DISA | Defense Information Systems Agency |
| DLA | Defense Logistics Agency |
| FERS | Federal Employees Retirement System |
| NIMA | National Imagery and Mapping Agency |
| OPM | Office of Personnel Management |
| TSP | Thrift Savings Plan |



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

March 25, 2002

MEMORANDUM FOR DISTRIBUTION

SUBJECT: Audit Report on DoD Payroll Withholding Data for FY 2000
(Report No. D-2002-070)

We are providing this report for review and comment. We considered management comments on a draft of this report when preparing the final report. We conducted the audit as a joint agency effort with significant assistance from the Defense Finance and Accounting Service internal review staff. We performed the audit in response to requirements of the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. We request comments from the Army on Recommendations 1.a., 1.b., and 1.c., and from the Defense Security Service on Recommendations 2.a. and 2.b. We request that the Defense Finance and Accounting Service provide additional comments concerning Recommendation 2.a., to explain when the Time and Attendance Timeliness Report initiative will be completed, and additional comments from the Navy to explain how the Navy will direct staff to accomplish Recommendation 1.c. We request management provide comments by May 24, 2002. DoD Education Activity provided late comments, but concurred with our recommendations.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. David F. Vincent at (703) 604-9109 (DSN 664-9109) (dvincent@dodig.osd.mil) or Mr. Thomas J. Winter at (703) 604-9134 (DSN 664-9134) (twinter@dodig.osd.mil). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in dark ink, appearing to read "Thomas F. Gimble", is positioned above the printed name.

Thomas F. Gimble
Acting
Deputy Assistant Inspector General
for Auditing

DISTRIBUTION:

UNDER SECRETARY OF DEFENSE (COMPTROLLER)
UNDER SECRETARY OF DEFENSE FOR PERSONNEL AND
READINESS
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL
MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE COMMISSARY AGENCY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE INFORMATION SYSTEMS AGENCY
DIRECTOR, DEFENSE LOGISTICS AGENCY
DIRECTOR, DEFENSE SECURITY SERVICE
DIRECTOR, NATIONAL IMAGERY AND MAPPING AGENCY
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
DIRECTOR, DOD EDUCATION ACTIVITY
DIRECTOR, CIVILIAN PERSONNEL MANAGEMENT SERVICES

Office of the Inspector General, DoD

Report No. D-2002-070

(Project No. D2000FH-0130.001)

March 25, 2002

DoD Payroll Withholding Data for FY 2000

Executive Summary

Introduction. We performed this audit in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, which requires DoD and other Government agencies to prepare consolidated financial statements. We performed this audit as a joint agency effort with the Defense Finance and Accounting Service (DFAS) internal review staff, who made a significant contribution by reviewing many sample items. Office of Management and Budget Bulletin No. 01-02, October 16, 2000, requires all Federal agencies to review the retirement, health, and life insurance withholdings and agency contributions during the course of conducting audits and specifies the procedures to apply. The DoD Financial Management Regulation prescribes the requirements of the DFAS payroll accounting system, including an audit trail and an ability to query data. DoD payroll offices remitted more than \$2 billion to the Office of Personnel Management for FY 2000 in retirement, health, and life insurance withholdings and agency contributions for more than 675,000 DoD civilian employees with a total annual payroll of \$25.2 billion. This is the second of a series of reports on payroll withholding for FY 2000.

Objectives. Our objective was to determine whether the retirement, health, and life insurance withholdings and employee data that DoD submitted were accurate and supported, and to determine the annualized dollar magnitude based on the statistically projectable sample. We also assessed management controls and compliance with laws, regulations, and procedures relative to payroll withholding data that DoD submitted.

Results. The personnel offices of the Military Departments and Defense agencies did not have adequate controls to support the accuracy of the payroll amounts withheld. Specifically, the Military Departments and Defense agency personnel offices did not ensure the accuracy of payroll withholding documents that support withholdings and deductions authorized. The Military Departments and Defense agency personnel offices did not ensure retention of files, documents, and data for supporting payroll withholding. The Military Departments and Defense agency personnel offices did not ensure transmission of payroll election data to the DFAS in an adequate and timely manner. As a result of the lack of controls, payroll withholding was statistically estimated to be \$68 million different than indicated in official personnel files. The statistically projected error rate from the sample is 9.29 percent, which is a repeat finding from a prior audit report. The statistically projected number of records in error (had one or more deficiencies in gross pay or withholding) is 1.59 million out of 17.1 million payroll records in the Defense Civilian Payroll System database (a record

is a civilian employee for one pay period). This is a repeat finding from Inspector General, DoD, Report No. D-2000-156, "DoD Payroll Withholding Data for FY 1999," June 29, 2000, with a non-statistically based error rate of 8.6 percent. For details of the audit results, see the Finding section of the report. See Appendix A for details on the management control program.

Summary of Recommendations. We recommend the Military Departments complete the process of automating payroll elections to improve accuracy and data retention and that Defense agencies start such a process. We also recommend the Military Departments and Defense agencies improve the processing of withholding documents and correct the errors in personnel files discussed in this report. We recommend the Military Departments report the results of their internal reviews of civilian personnel documents and data in terms of the performance measures for assessing the accuracy of payroll withholding.

Management Comments. The Army and Defense Security Service did not provide comments and DoD Education Activity comments were late. The Assistant Secretary of the Navy (Manpower and Reserve Affairs) disputed the results on \$180.67 of errors out of \$735.53, and concurred on the recommendations. The Chief, Civilian Policy Division, U.S. Air Force, concurred and proposed appropriate corrective actions. The Defense Commissary Agency (DeCA) concurred and agreed to issue operating guidance and to correct individual records. The DFAS concurred and implemented reports to assist the personnel community, and also stated that it would correct the records. The Defense Information Systems Agency (DISA) nonconcurred even though it conceded that personnel records were misplaced or misfiled on two out of three cases. However, it completed actions consistent with the intent of the recommendations. The Defense Logistics Agency (DLA) partially concurred but actually took implementing action to improve the processing of withholding documents and also stated that the records of the employees identified have been corrected. The National Imagery and Mapping Agency (NIMA) concurred and stated that new control procedures effective November 1, 2001, will ensure recent changes are reflected in pay, and that discrepancies in employee records have been corrected. A discussion of management comments is in the Finding section of the report, and the text is in the Management Comments section.

Audit Response. The Army and Defense Security Service did not provide comments. The Navy comments were partially responsive; however, the Navy did not specify actions taken to direct staff to report the results of internal reviews in terms of performance measures. The Air Force comments were responsive and the Air Force proposed actions to effectively implement the recommendations. The comments from the DeCA, DFAS, DLA, and the NIMA were responsive and the actions taken met the intent of the recommendations. Although the DISA nonconcurred, the actions taken were responsive and met the intent of the recommendations. We considered all of their comments and included them in this report. We received late comments from the DoD Education Activity that were not incorporated in this report. We will consider those comments as a response to the final report unless we receive additional comments from the DoD Education Activity. We request that the Army, the Defense Finance and Accounting Service, the Defense Security Service, and the Navy provide comments on the recommendations by May 24, 2002.

Table of Contents

| | |
|--|----|
| Executive Summary | i |
| Introduction | |
| Background | 1 |
| Objectives | 1 |
| Finding | |
| DoD Payroll Personnel Records | 3 |
| Appendixes | |
| A. Audit Process | |
| Scope | 17 |
| Methodology | 17 |
| Management Control Program Review | 18 |
| Prior Coverage | 19 |
| B. Summary of Errors | 20 |
| C. Statistical Sampling Methodology | 30 |
| D. Report Distribution | 33 |
| Management Comments | |
| Department of the Navy | 35 |
| Department of the Air Force | 36 |
| Defense Logistics Agency | 37 |
| Defense Commissary Agency | 40 |
| Defense Finance and Accounting Service | 42 |
| National Imagery and Mapping Agency | 45 |
| Defense Information Systems Agency | 48 |
| Deputy Assistant Secretary of Defense, Civilian Personnel Policy | 51 |

Background

Joint Teaming Audit. To accomplish this statistically projectable audit we performed a joint team effort with Defense Finance and Accounting Service (DFAS) internal review personnel. Due to the large required sample size of 1,480 individuals, the Inspector General, DoD, staff was supplemented with DFAS staff to more expeditiously complete the audit. This audit could not have been completed as timely without the excellent work of the dedicated DFAS professional staff and the cooperative approach between them and the Inspector General, DoD.

Reporting Requirements. Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, requires Federal organizations to prepare annual audited financial statements. The Chief Financial Officers Act also requires the Inspectors General to audit all financial statements prepared under its guidelines. The Chief Financial Officers Act, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994,” October 13, 1994, has required DoD and other Government agencies to prepare agency-wide financial statements since FY 1996.

Audits of Federal Financial Statements. Office of Management and Budget Bulletin No. 01-02, “Audits of Federal Financial Statements,” October 16, 2000, (the Bulletin), establishes responsibilities and standards for audits of Federal financial statements. Appendix I-1 of the Bulletin outlines agreed-upon procedures to be applied separately for each agency payroll office that services civilian employees during the year. The period subject to the agreed-upon procedures is for the 12 months ending September 30 of each year. On October 30, 2000, we submitted a separate memorandum report on the application of the agreed-upon procedures to the Inspector General of the Office of Personnel Management (OPM). This report reflects our subsequent efforts to statistically project the dollar differences as applied by the procedures listed in the appendix I-1, but increased the sample size from 280 to 1,480.

Payroll Responsibilities. DFAS provides payroll services to DoD. These payroll services include calculation of gross pay, payroll withholding, and reporting the amounts withheld to OPM. DFAS reports more than \$2 billion in withholding to OPM annually for more than 675,000 DoD civilian employees included in the total annual civilian payroll of approximately \$25.2 billion. DoD civilian personnel offices and regional centers are responsible for maintaining the documentation that supports all DoD civilian personnel withholding elections and gross pay amounts.

Objectives

The overall audit objective was to determine whether the retirement, health benefits, and life insurance withholdings and employee data that DoD submitted to OPM for FY 2000 were accurate and supported. Though not required, we also wanted to be able to statistically project the dollar differences to an

annualized basis, which resulted in this larger sample size. Appendix I-1 of the Office of Management and Budget Bulletin No. 01-02 specifies the procedures that we applied to meet the objective. We also assessed management controls and compliance with laws, regulations, and procedures relative to payroll withholding data that DoD submitted. Appendix A includes a discussion of scope, methodology, the management control program review, and prior audit coverage.

DoD Payroll Personnel Records

Documents to authorize payroll withholdings that are maintained in personnel files do not agree with the amounts withheld by DFAS. The lack of support occurred because personnel offices in Military Departments and Defense agencies did not have adequate controls over data that support the accuracy of the payroll amounts withheld. The personnel offices did not complete the process of automating payroll elections. Without an automated payroll elections system, forms prepared were often incomplete and personnel payroll data were not always transmitted promptly to DFAS. In addition, data supporting payroll withholding elections were not always retained in personnel files. As a result of the lack of controls, payroll withholding was statistically estimated to be \$68 million different than indicated in official personnel files. The statistically projected error rate from the sample is 9.29 percent. The statistically projected number of records in error (had one or more deficiencies in gross pay or withholding) is 1.59 million out of 17.1 million payroll records in the Defense Civilian Payroll System database. This is a repeat finding from Report No. D-2000-156, "DoD Payroll Withholding Data for FY 1999, June 29 2000 with a non-statistically based error rate of 8.6 percent.

Documentation

Civilian Personnel Office Records. Documentation in civilian personnel office records and databases supports and authorizes payroll deductions for retirement, health benefits, and life insurance. Internal controls should ensure amounts withheld as payment for benefits are authorized and accurate. One internal control over the civilian payroll system, to ensure accuracy, is to compare personnel authorizations to what DFAS actually withholds. Without authorization, DFAS does not have the authority to deduct the amount withheld. In the past, DoD civilian employees made elections almost exclusively on paper forms. DoD personnel offices retained the signed forms as evidence of the employee's elections for particular benefits and authorization for withholdings. During FY 2000, most Air Force civilian employees were able to make elections electronically, and Air Force retained electronic records to document those elections. During FY 2000, most Army, Navy, and Defense agency civilian employees made the elections on paper forms. Therefore, Army, Navy, and Defense agencies had to retain paper copies of the elections in official personnel files. For purposes of our audit, we defined an error as an inconsistency or discrepancy between personnel file documentation (electronic or paper) and payroll withholding data. We considered the documents in the personnel file to be the controlling documents for the employee since this was the official authorization.

Requirements for Audit Trails. DoD Regulation 7000.14-R, "DoD Financial Management Regulation," May 1993 with changes through April 2001, states that accounting systems must have audit trails that allow transactions to be traced from initiation through processing to final reports. A fundamental

requirement of a good audit trail is that it adequately supports the transactions and payroll deductions forwarded to OPM for employee benefits. In addition, a good audit trail can be traced from final reports to the initiating transaction document. The audit trail provides management with assurance that support for any transaction can be easily identified for resolution or analysis. All transactions and deductions should be supported with pertinent documents and source records.

Controls

Civilian personnel offices did not have adequate controls to retain documentation and promptly communicate payroll withholding elections to the Defense Civilian Personnel System. In addition, the civilian personnel offices lacked adequate controls to accurately calculate gross pay and withholding amounts. Sixty-five of the errors were caused by outdated (11) or missing documents (54). For example, deductions of \$43.80 for health insurance and \$77.02 for the Thrift Savings Plan for one sampled employee were not supported by forms in the official personnel file. Forty-six of the errors were caused by not transmitting the payroll withholding information (32), by late transmitting (13), and by transmitting the wrong data (1). As an example, one employee canceled his health insurance but \$57.86 continued to be withheld from his pay for health insurance. Eighty-six of the differences were calculation errors. Seventeen of these were due to not changing the pay rate and 4 were due to late approvals of pay changes. An automated system could easily include features to notify personnel administrators that a pay rate change or approval is due. For example, one employee was underpaid \$53.42, which affected life, retirement, and Thrift Savings Plan withholding. If DoD civilian personnel offices successfully automated payroll withholding forms, communications, and personnel actions, they could prevent errors in documentation, communication, and calculations.

Supporting Documentation

Files Reviewed. Personnel offices and regional centers lacked adequate documentation and supporting data for payroll deductions. Out of our sample of 1,480 employee personnel records, 127 records had one or more deficiencies in their gross pay or withholding amounts. Some of the records had one or more deficiencies because of inadequate documentation, and other records had calculations inconsistent with the document support because personnel offices did not promptly transmit personnel payroll data to DFAS. Because some sample items had more than one error, the errors totaled 201. The lack of supporting documentation caused errors in the payroll categories of gross pay, retirement, Thrift Savings Plan (TSP), health benefits, and Federal Employee Group Life Insurance (life insurance) withholding amounts.

File Not Provided. Personnel offices and regional centers were not able to provide 1 official personnel file of the 1,480 records sampled. This sampled employee with a missing official personnel file we treated as an error in all

audited categories. However, since the missing sampled employee was in a leave without pay status, we did not project any dollar amounts.

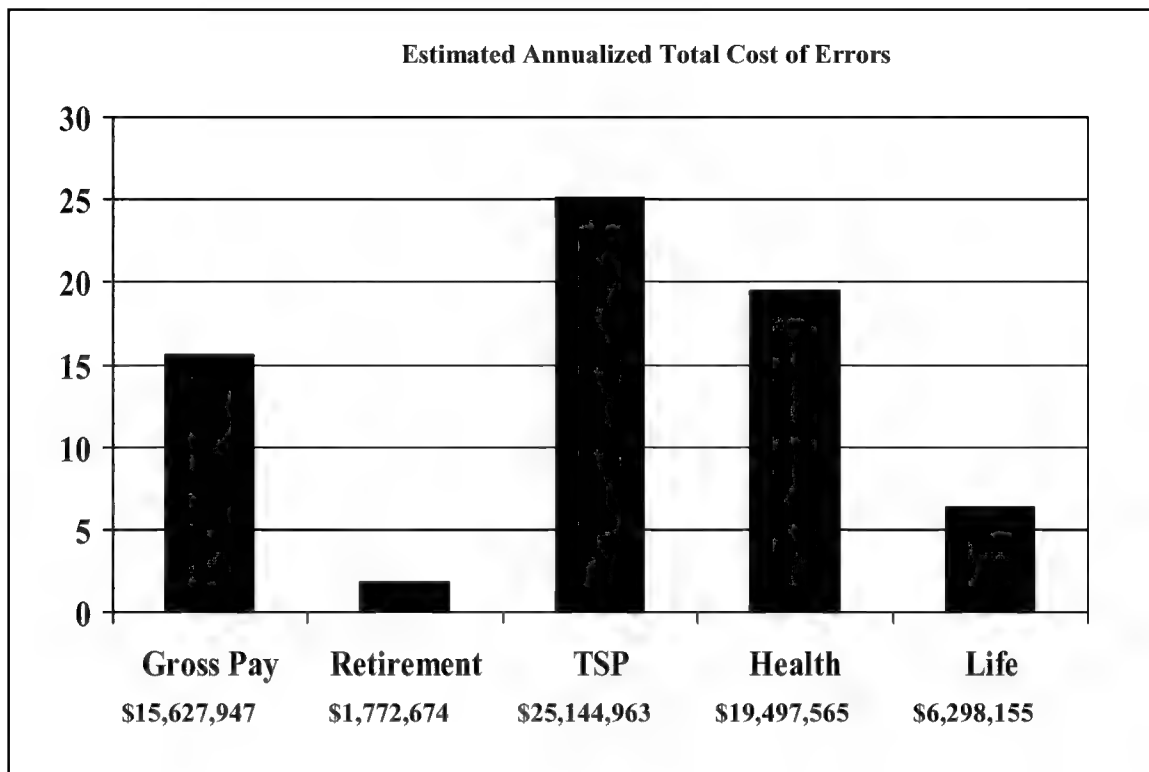
Table of Errors in Supporting Documentation. The following table identifies the number of errors by payroll deduction.

| Errors in Supporting Documentation | | | | | | | |
|--|------------------|-------------------------|-------------------------|------------|-----------------------|------------------|--------------|
| | Gross Pay | CSRS¹ | FERS² | TSP | Health Benefit | Life Ins. | Total |
| Errors | 19 | 14 | 22 | 43 | 38 | 65 | 201 |
| ¹ Civil Service Retirement System | | | | | | | |
| ² Federal Employees Retirement System | | | | | | | |

Accuracy of Withholding Amounts

Gross Pay. Gross pay errors project statistically to a point estimate of \$15.6 million on an annualized basis. Gross pay was not supported in 19 instances. The 19 instances in which the gross pay was not supported included 8 missing documents (\$453.20 per pay period), 10 calculations errors (\$595.82 per pay period), and one late approval (\$172.61 per pay period). (Calculation errors include Standard Form 50s prepared after the effective date of the pay change, without a reasonable explanation.) For example, one civilian employee was underpaid by \$17.60 per pay period for 4 pay periods because the SF 50, "Notification of Personnel Action," effective March 26, 2000, was not signed until June 1, 2000. The effect of the errors could result in a civilian employee not receiving the correct amount of net pay, and possibly a future liability due to an overpayment.

The following figure shows the statistically projected value of the errors by category.



Retirement. Retirement errors project statistically to a point estimate of \$1.8 million on an annualized basis. Our sample identified 632 of 1,480 participants who were in CSRS, 771 participants who were in FERS, and 77 participants who were not eligible or not in a plan for other reasons.

Specifically, 14 retirement withholding (contribution) errors for CSRS were caused by:

- 4 errors due to failure to change the pay rate (\$8.65 per period),
- 2 missing forms (\$8.22 per pay period),
- 2 outdated personnel action forms (\$12.90 per pay period), and
- 6 calculation errors (\$26.68 per pay period).

Additionally, 22 retirement withholding errors for FERS were caused by:

- 5 errors due to failure to change the pay rate (\$3.99 per period),
- 5 outdated personnel actions forms (\$4.89 per pay period),

-
- 10 calculation errors (\$46.46 per pay period),
 - 1 error due to a missing form, and
 - 1 error due to late transmittal (\$.36 per pay period).

Thrift Savings Plan. Errors project statistically to a point estimate of \$25.1 million. We also identified 43 TSP errors (\$2,174.17 per pay period) because of:

- 1 incomplete election (\$148.56 per pay period),
- 11 missing forms (\$1,099.57 per pay period),
- 4 outdated forms (\$17.48 per pay period),
- 13 calculation errors (\$385.31 per pay period),
- 8 failures to change the pay rate (\$31.45 per period), and
- 6 errors due to late data transmittal (\$491.80).

Because TSP election forms were not consistently completed and on file, DoD was not assured of the accuracy of amounts withheld for DoD civilian employees and that the elections of DoD civilian employees were actually reflected in their payroll and their Thrift Savings Plans.

Because potential errors may repeat until corrected and considering compound interest that could be earned, a single error for an employee could multiply to a significant amount over time.

Health Benefits. Health benefits plan errors project statistically to a point estimate of \$19.5 million on an annualized basis. We compared the amounts withheld in the payroll data files with the amounts that should have been withheld according to the personnel file documentation. We identified 38 health benefits withholding errors. The 38 errors were caused by:

- 13 missing documents (\$702.73 per pay period),
- 3 late data transmittals (\$80.52 per pay period),
- 16 health plan elections not transmitted (\$636.01 per period), and
- 6 calculations errors (\$185.53 per pay period).

For example, one employee had \$66.78 withheld even though the employee's election form on file should have required withholding of only \$30.04. The employee signed the form on November 17, 1999, with the action to take effect on January 2, 2000. However, the personnel office failed to transmit the change

in time for the pay period ending April 22, 2000. Health benefits selected by employees must be transmitted to DFAS accurately and timely to ensure that withholdings are authorized.

Life Insurance. Life insurance errors project statistically to a point estimate of \$6.3 million on an annualized basis. We recalculated the amount that should have been withheld for life insurance coverage based on personnel file documentation and the Federal rates for life insurance. The Federal rates for life insurance are in the Federal Employees Group Life Insurance handbook (RI76-21). Our analysis reflected 65 life insurance withholding errors. The 65 withholding errors were caused by:

- 16 data transmittals not made (\$329.83 per pay period),
- 20 personnel folders with no form (\$170.29 per pay period),
- 22 calculation errors (\$28.33 per pay period),
- 3 late pay change approvals (\$1.78 per pay period),
- 3 late data transmittals (\$1.02 per pay period), and
- 1 sample item with data transmitted wrong (\$1.40 per period).

For example, one employee elected basic life plus option A, four option B's, and two option C's effective January 10, 2000, and \$18.75 should have been withheld per pay period. However, as of April 22, 2000, the new life election had not been transmitted to DFAS and the pay withholding was only \$10.23 per pay period, the cost of basic life insurance for this employee. Life insurance was underwithheld for this employee by \$8.52 per pay period. Because life insurance election forms were not consistently entered into the personnel and payroll system, DoD was not assured of the accuracy of amounts withheld for DoD civilian employees and that the elections of DoD civilian employees were actually reflected in their payroll. Employees could choose a high rate of life insurance coverage, but would have inadequate withholding amounts withheld. The inadequate withholding could create a situation where the employee could be billed for the coverage at a later date for an amount significantly greater than the biweekly withholding.

Measures of Performance and Validation

Personnel File Documentation. DoD needs to improve the accuracy of its payroll withholding data because personnel file documents supporting payroll deductions were missing or not current. We identified documentation errors in personnel files that affected gross pay calculations, retirement, thrift savings, health benefits, and life insurance. We also determined that personnel offices did not have reliable systems for retaining accurate payroll elections or for the prompt transmission of information to DFAS. Additionally, timely corrections to personnel files did not occur. The Military Departments were implementing measures for assessing the support for gross pay and payroll withholding from

personnel file records and accounting records. However, those measures had not yet shown an appreciable improvement. In addition, the Military Departments were just starting to implement feedback mechanisms to alert management to those problems.

Army Personnel. The Army deployed the Modern Defense Civilian Personnel Data System at 7 of its 10 regional Civilian Personnel Operations Centers during FY 2001. The remaining Civilian Personnel Operations Centers are scheduled for deployment by FY 2002. The Army planned to implement the Interactive Voice Response System and the Electronic Benefits Information System to effect paperless elections. In order to implement these systems, the Army will revise prior processes and procedures for the submission of personnel actions. The Army expected that these revisions would improve accuracy of personnel and payroll withholding data. Although implementing an electronic personnel system and automating benefits elections will improve accuracy of future personnel and payroll withholding data, it will not correct existing errors.

Navy Personnel. The Navy, in conjunction with DFAS, developed an improved pay process design model to clarify roles and responsibilities in order to improve benefits processing. Navy and DFAS also prepared a Frequently Asked Questions document based on 30 problem areas identified. Additionally, Navy and DFAS improved the reconciliation process used to synchronize the human resources and pay/benefits data systems. This included publishing and adhering to a strict timeline for executing reconciliations. The Navy also deployed the Defense Modern Civilian Personnel Data System at six of its regional human resource service centers during FY 2001. The Navy's Human Resource Assessment Program was instituted with the issuance of SECNAVINST 12273.1, "Assessment and Evaluation of Civilian Human Resources Management," on March 16, 1999. Navy provided more detailed guidance to its operating human resource offices through Guide # 273-02, "A Self-Assessment Guide for Human Resource Service Providers." The Navy intends for field level human resource providers to apply this guidance to assess the timeliness, completeness, and accuracy of service in the areas of life insurance, health insurance, pay adjustments, TSP, and retirement.

Air Force Personnel. The Air Force used an automated Interactive Voice Response/Web System for civilian employee payroll withholding elections. The automated system allows for electronic filing of personnel documents, internal quality control checks on the systems processes, the ongoing review of personnel data system control products, and the aggressive working of the payroll reconciliation process.

Prior Report. The Inspector General, DoD, issued Report No. D-2000-156, "DoD Payroll Withholding Data for FY 1999," on June 29, 2000. We recommended establishing procedures that ensure timely and accurate payroll election records and prompt transmission of personnel payroll data; correcting errors determined by audit for FY 1999; establishing a review system for employee payroll elections; and establishing performance measures for assessing the accuracy of payroll withholding data. We recommended that the Director, Defense Finance and Accounting Service, develop software capable of correctly extracting electronic files that support the withholding amounts reported and

implement management control procedures that ensure clear identification and communication of responsibilities. The Military Departments have since deployed the Modern Defense Civilian Personnel Data System, and automated telephone and web based election systems to improve timeliness and accuracy of events and elections affecting gross pay. The Army has had the Civilian Personnel Evaluation Agency perform reviews of official personnel files. The Navy has assigned review responsibilities. The DFAS adequately supported the withholding amounts reported in a second data call for this audit, but not in the first data call. The DFAS established new internal control procedures for clear identification and communication of responsibilities.

Conclusion

There were errors in personnel records documenting employee gross pay and withholding for retirement, health benefits, and life insurance. DoD had deficiencies in employee records because Military Department and Defense agency personnel activities had not completed automating the processes of making payroll elections and retaining the payroll election data in electronic form. Also, DoD personnel offices did not fully have in place an effective system to review and correct civilian employee personnel data and documents and civilian employee withholding data on a timely basis. Automating the process of making payroll elections will provide opportunities to use software to improve the accurate completion of personnel documents. It will also reduce reentry of data and improve the prompt transmission of personnel payroll data to DFAS. In addition, automating the process of making payroll elections and retaining data will help DoD improve management controls for DoD personnel offices and regional centers. Until the process of making payroll elections is automated and fully implemented throughout DoD, the deficiencies noted will not be corrected and personnel documentation and personnel data files will not support amounts paid and withheld by DFAS. Although implementing an electronic personnel system and automating benefits elections will improve accuracy in the personnel and payroll withholding data in the future, existing errors need to be corrected.

Management Comments on the Finding and Audit Response

Although not required to comment, the Civilian Personnel Management Service provided the following comments on the finding. For the full text of the Civilian Personnel Management Service comments, see the Management Comments section of the report.

Civilian Personnel Management Service Comments. Although the report is dated November 2001, data were collected during five pay periods in the October 1999 through September 2000 timeframe. The Military Departments and many of the Defense agencies have implemented or are in the process of implementing phone or web benefit administration procedures. Consequently, the information in the report is outdated. The draft audit report concludes that civilian personnel offices did not have adequate controls to ensure accurate

calculation of gross pay and payroll withholding amounts and do not retain documentation supporting the accuracy of payroll amounts withheld. The responsibility to ensure the accuracy of gross pay calculations, withholding calculations, and net pay calculation rests with the payroll office, not the civilian personnel office. DFAS is responsible, not the civilian personnel offices, to support these computations and retain the documentation for audits of these amounts. The report concludes that successfully automating communication of payroll withholding elections would reduce communications errors; however, communicating payroll withholding elections is already automated. In addition, the Army deployed the Modern Defense Civilian Personnel Data System at seven Civilian Personnel Operations Centers in FY 2001 and the Navy deployed the same system at six Human Resource Service Centers in the same fiscal year.

Audit Response. The information in the report is contemporary and not outdated. Specifically, we collected data from December 2000 through June 2001 for the five pay periods audited. We also discussed with Military Department personnel management ongoing efforts to modernize and automate benefit administration. Many of the items sampled and some of the errors noted were the result of telephone or web benefit administration. This report concluded that personnel offices did not have adequate controls over data that support the accuracy of payroll amounts withheld, not that civilian personnel offices were directly responsible for payroll office functions including calculation of gross pay and payroll withholding amounts. However, civilian personnel offices are responsible for retaining documentation of civilian employee elections and personnel actions affecting the calculation of these amounts. We note that communicating withholding elections is already automated; however, there were personnel records with elections on file that were not successfully communicated to the Defense Civilian Pay System and were not reflected in the payroll withholding. Successfully automating this communication between the civilian personnel office and the Defense Civilian Payroll System would eliminate errors where elections are made and recorded or documented, but are not communicated to the Defense Civilian Payroll System. Successfully automating the system would require combining the election process with the automatic communication element. The final report reflects the number of Army and Navy sites that deployed the Modern Defense Civilian Personnel Data System in FY 2001, with adjustments as suggested by the Civilian Personnel Management Service.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Assistant Secretary of the Army (Manpower and Reserve Affairs), the Assistant Secretary of the Navy (Manpower and Reserve Affairs), and the Assistant Secretary of the Air Force (Manpower, Reserve Affairs, Installations, and Environment):

a. Complete the process of automating payroll elections to improve accuracy, to speed transmission of data to the Defense Finance and Accounting Service, and to retain payroll data in electronic form by extending the use of automated systems for making payroll elections to all civilian employees.

Management Comments Required. We request comments from the Army on Recommendation 1.a.

Navy Comments. The Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred and stated that the Navy is already automating the benefits election process. The Assistant Secretary of the Navy expects to have this Web-enabled system fully deployed across the Navy by the third quarter of FY 2002.

Air Force Comments. The Chief, Civilian Policy Division, Directorate of Personnel Force Management, Headquarters, United States Air Force concurred and stated that it will be participating in a Government-wide system in June 2002 for health insurance reconciliation. The Air Force is migrating to the Modern Defense Civilian Personnel Data System and electronic programs such as electronic Official Personnel File, and Personnel Automated Records Information System.

Civilian Personnel Management Service Comment. Although not required to comment, the Civilian Personnel Management Service agreed that increased automation of employee Thrift Savings Plan, health benefits, and life insurance elections will reduce errors caused by delayed or erroneous input. The recommendation to automate has largely been accomplished.

b. Correct the errors in personnel files discussed in this report (see Appendix B for specific errors identified).

Management Comments Required. We request comments from the Army on Recommendation 1.b.

Navy Comments. The Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred but believed that 13 of the 26 errors in Navy civilian personnel payroll data were attributable to processing failures by the Defense Finance and Accounting Service or other agencies, by first line supervisors, or that the alleged error did not occur. The Navy has already corrected the errors. We calculated the dollar amount for those files the Navy disputed and the results were \$180.57 out of \$735.43 for all 26 errors.

Audit Response. Automating the process of making payroll elections will reduce errors by everyone involved in processing payroll withholding information, including Navy personnel offices, Defense Finance and Accounting Service, and first line supervisors.

Air Force Comments. The Chief, Civilian Policy Division, concurred and stated that the errors have either already been corrected or will be corrected by March 31, 2002.

c. Report the results of internal reviews of civilian personnel documents and data in terms of the performance measures for assessing the accuracy and support for gross pay and payroll withholding.

Management Comments Required. We request comments from the Army on Recommendation 1.c.

Navy Comments. The Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred but did not specify how the Navy would accomplish Recommendation 1.c.

Audit Response. The Navy needs to provide additional comments explaining how it will direct personnel to report the results of internal reviews of civilian personnel documents and data in terms of the performance measures for assessing the accuracy and support for gross pay and payroll withholding.

Air Force Comments. The Chief, Civilian Policy Division, concurred and stated that the Air Force would report the results of their internal reviews of civilian personnel documents and data in terms of performance measures for assessing the accuracy of payroll withholding. The Chief, Civilian Policy Division stated that this recommendation would be provided to supervisors at the Air Force Personnel Center as well as the Headquarters United States Air Force performance management program manager.

2. We recommend that the Director, Defense Logistics Agency; the Director, DoD Education Activity; the Director, Defense Finance and Accounting Service; the Director, Defense Commissary Agency; the Director, National Imagery and Mapping Agency; the Director, Defense Information Systems Agency; and the Director, Defense Security Service:

a. Improve the accuracy and timeliness of processing payroll withholding authorizations.

Management Comments Required. We request comments from the Director, Defense Security Service on Recommendation 2.a. We received late comments from the DoD Education Activity that were not incorporated in this report. We will consider those comments as a response to the final report unless we receive additional comments from the DoD Education Activity.

Defense Commissary Agency Comments. The Director, Defense Commissary Agency concurred and stated that the Defense Commissary Agency's consolidation of personnel servicing into one central location has improved the processing of all personnel actions and, most important, of those affecting pay. Because there is no connectivity between the pay and personnel systems, errors are likely to continue to occur until this DoD-wide problem is corrected. Automating some of the benefits processes, so that employees are held responsible for their own elections and updates, will help reduce pay errors, but will not fix all the types of problems that occur. The Defense Commissary Agency will issue operating guidance to improve management accountability for pay and personnel records. The target date for issuing the guidance is April 1, 2002.

Defense Finance and Accounting Service Comments. The Director, Human Resources, Defense Finance and Accounting Service concurred and stated that the Defense Finance and Accounting Service had implemented a Personnel Action and Timeliness Report to assist the personnel community in identifying problem areas. The Defense Finance and Accounting Service also implemented a system change request in the Defense Civilian Payroll System to Federal Employee Group Life Insurance and Federal Employees Health Benefits to comply with Office of Personnel Management Regulations, effective December 2, 2001. In addition, a future initiative will be a Time and Attendance Timeliness Report to assist the customer to identify areas that are causing delays and inaccurate reporting.

Audit Response. We request the Defense Finance and Accounting Service to provide additional comments explaining when the Time and Attendance Timeliness Report initiative is scheduled for completion.

Defense Information Systems Agency. The Inspector General, Defense Information Systems Agency, nonconcurred with the finding but stated that the Defense Information Systems Agency implemented the DoD Employee Benefits Information System in the fall of 2001. The DoD Employee Benefits Information System is a web application that allows employees to access general and personal benefits information using a computer. Employees are able to make Federal Employee Health Benefit, Federal Employee Group Life Insurance, and Thrift Saving Plan elections electronically. The elections flow electronically to the Modern Defense Civilian Personnel Data System and the Defense Civilian Pay System. The Employee Benefits Information System provides a receipt to the employee and establishes an electronic record. The Employee Benefits Information System is expected to substantially improve the processing of withholding documents and prevent errors associated with filing or loss of hardcopy documents.

Audit Response. The Defense Information Systems Agency has completed action on this recommendation.

Defense Logistics Agency Comments. The Defense Logistics Agency partially concurred and stated that systemic issues including lack of input validation and error handling differences within personnel and pay systems prevent complete integration of personnel and payroll. The Defense Logistics Agency will implement an electronic personnel file in the fourth quarter of 2002 that will receive automated feeds of the key authorizing documents from automated payroll deduction election systems. The Defense Logistics Agency implemented the web-based Employee Benefits Information System, enabling Defense Logistics Agency employees to complete changes to their health benefits, life insurance, and Thrift Savings Plan directly. The result is an automated transmission to the health plan carrier as well as direct update of the Modern Defense Civilian Personnel Data System and its resulting feed to the Defense Civilian Pay System. Although the Defense Logistics Agency will not eliminate hard-copy submissions in the near future, improved marketing and continued enhancements to the systems are expected to increase the percentage of employee-initiated changes. The Defense Logistics Agency is taking aggressive action to utilize the available automated systems and is following the guidelines

for ensuring proper personnel and payroll interface. Defense Logistics Agency actions are ongoing with an estimated completion date of the fourth quarter of 2002.

National Imagery and Mapping Agency. The Director, National Imagery and Mapping Agency, concurred and stated that in the future the National Imagery and Mapping Agency will adhere to Office of Personnel Management guidance by implementing new control procedures effective November 1, 2001. These new control procedures advise the employee to review the Leave and Earnings Statement to ensure recent changes are accurately reflected. The actual error identified in the report was the result of not maintaining proper documentation in an employee's official personnel file to support a health benefit change. As part of the agreement between the Defense Finance and Accounting Service and the agencies for which they provide payroll servicing, mandatory reconciliations are required three times a year between the Defense Civilian Payroll System and the Agency personnel system. At Agency discretion, reconciliations can occur monthly. The National Imagery and Mapping Agency chooses to complete monthly reconciliation to identify discrepancies between the Defense Civilian Payroll System and the Agency personnel (Peoplesoft) databases.

b. Correct the errors in personnel files discussed in this report (see Appendix B for specific errors identified).

Management Comments Required. We request comments from the Director, Defense Security Service on Recommendation 2.b. We received late comments from the DoD Education Activity that were not incorporated in this report. We will consider those comments as a response to the final report unless we receive additional comments from the DoD Education Activity.

Defense Commissary Agency. The Defense Commissary Agency concurred and stated that it would correct the records for the seven individuals by February 28, 2002.

Defense Finance and Accounting Service. The Director, Human Resources, Defense Finance and Accounting Service, concurred and stated that the Defense Finance and Accounting Service would correct the two records.

Defense Information Systems Agency. The Inspector General, Defense Information Systems Agency, nonconcurred and stated that the three errors in the report for Defense Information System Agency employees were in fact not errors. The Defense Information Systems Agency stated that the Federal Employees Group Life Insurance form in the official personnel file for sample item 56 supported the payroll deduction, and that the Health Benefits Election Form in the official personnel file for sample item 138 supported the payroll deduction and health plan code. The Defense Information Systems Agency stated that the Federal Group Life Insurance form was on file supporting the payroll deduction for sample item 139, and added that the form may have been removed at the time of our audit for administrative activity supporting the employee's retirement on December 1, 2001.

Audit Response. Defense Information Systems Agency has corrected the errors identified in our audit. So in fact the recommendation has been implemented and corrective action taken. The election form in the official personnel file did not support the deduction being taken for Federal Employees Group Life Insurance for sample item 56. The Notice of Change in Health Benefits Enrollment in the file at the time of audit for sample item 138, showed enrollment code 452, instead of code 451. No Federal Employee Group Life Insurance form was on file for sample item 139, and therefore the deduction being taken in the payroll system was not supported by the official personnel file.

Defense Logistics Agency. The Defense Logistics Agency concurred and stated that the records of the four employees identified in the report have been researched and corrections made.

National Imagery and Mapping Agency. The Director, National Imagery and Mapping Agency concurred and stated that the error identified in the report was the result of dual health insurance coverage instead of unauthorized withholdings as stated in the report. In March 2000 the National Imagery and Mapping Agency identified the discrepancies and took corrective action. Although a Health Benefits Election Form was initiated to change health benefits withholding, a copy of the voided Health Benefits Election Form to support the change was not retained in the employee's official personnel file. The National Imagery and Mapping Agency Human Resources recreated the Health Benefits Election Form supporting Federal Employee Health Benefit deductions for the identified employee record and filed it in the appropriate official personnel file. In order to prevent similar events in the future, human resources will conduct annual random reviews of official personnel folders to ensure Health Benefits Election Forms have been properly maintained.

Appendix A. Audit Process

Scope

We reviewed a sample of the data and documentation supporting the \$2 billion in payroll withholding reported during each year by DFAS to OPM for DoD civilian personnel. The total annual payroll for about 675,000 DoD civilian employees is \$25.2 billion. We selected for review the payroll files and supporting documentation for the payroll periods that ended October 23, 1999; February 26, 2000; April 22, 2000; July 1, 2000; and September 9, 2000. The DFAS payroll history database did not support the amount of DoD payroll withholding reported to OPM. We made recommendations addressing this deficiency for FY 2000 in Inspector General, DoD, Report No. D-2001-109, issued April 27, 2001. We also made recommendations addressing this deficiency for FY 1999 in Inspector General, DoD, Report No. D-2000-156, issued June 29, 2000. We also reviewed DoD plans and actions to automate and use electronic media to record DoD civilian personnel withholding elections.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management high-risk area.

Audit Type, Dates, and Standards. We performed this financial-related audit from December 2000 through June 2001 in accordance with generally accepted government auditing standards.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD and the Office of Personnel Management. We visited or contacted the Assistant Secretary of the Army for Manpower and Reserve Affairs, the Army's Civilian Personnel Operations Center Management Activity, and the Army's Civilian Personnel Operations Centers at Aberdeen Proving Ground, Ft. Belvoir, Redstone Arsenal, Ft. Huachuca, Ft. Riley, and Rock Island. We visited the Navy's Assistant Secretary for Manpower and Reserve Affairs, the Navy's Human Resource Operations Center, and the Navy's Human Resource Centers at Washington, D.C., Norfolk, Philadelphia, Puget Sound, and San Diego. We visited or contacted the Headquarters, U.S. Air Force (Personnel Force Management) and the Air Force Personnel Operations Center at Randolph Air Base and Tinker Air Base. We also visited or contacted the Defense Commissary Agency, Defense Information Systems Agency, Defense Logistics Agency, the DoD Education Activity, the Defense Security Service, and the National Imagery and Mapping Agency. Further details are available upon request.

Methodology

We reviewed data and documentation supporting gross pay and payroll withholdings that DFAS reported to OPM, for the five pay periods ended

October 23, 1999; February 26, 2000; April 22, 2000; July 1, 2000; and September 9, 2000. We also reviewed management controls over the reporting process. We compared the payroll data files with employee personnel forms for 1,480 randomly selected employees for gross pay, retirement, health insurance, and life insurance. The Office of the Inspector General, DoD, assigned 16 staff members to this audit including 7 management and technical staff. The Defense Finance and Accounting Service, Internal Review assigned nine auditing staff members to this audit. DFAS and Inspector General, DoD, personnel each reviewed approximately an equal number of sample items for the audit. We assured ourselves that we could rely on the audit work of Defense Finance and Accounting Service, Internal Review by reviewing most of their workpapers prepared to support this audit.

Statistical Sampling Methodology. The statistical sampling methodology is discussed in Appendix C.

Computer-Processed Data. We did not evaluate the general and application controls of the Defense Civilian Pay System that processes payroll data, although we did rely on data produced by that system to conduct the audit. We did not evaluate the controls because we determined data reliability by adding the data provided to us from the system and comparing the totals to summary documents previously prepared from data in the system. Not evaluating the controls did not affect the results of the audit.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD managers to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of DoD personnel offices' management controls over official personnel files. Specifically, we reviewed DoD personnel offices' management controls over accuracy of personnel elections for payroll withholding, transmission of payroll withholding data to DFAS, and retention of personnel payroll withholding election data in the official civilian personnel files. We reviewed the annual statements of assurance by the Military Departments and Defense agencies to determine whether they disclosed the inconsistency between official personnel files and Defense Civilian Pay System payroll withholding data.

Adequacy of Management Controls. We identified a material management control weakness for DoD personnel offices as defined by DoD Instruction 5010.40. DoD personnel offices' management controls for accuracy of personnel payroll withholding elections, timely transmission of personnel payroll withholding data to DFAS, and retention of personnel payroll

withholding election data in official personnel files were not adequate to ensure that civilian personnel were paid and withholdings made properly, that civilian personnel payroll withholding data were transmitted in a timely manner, and that documents and data supporting payroll withholding were retained in the official personnel files. Recommendations 1.a., 1.b., and 2., if implemented, will improve DoD personnel office payroll withholding procedures. A copy of the report will be provided to the senior official responsible for management controls of the personnel offices of the Military Departments and Defense agencies.

Adequacy of Management's Self-Evaluation. The management self-evaluation by the Military Departments and Defense agencies did not identify the material weakness because management did not identify the area as an assessable unit.

Prior Coverage

The Inspector General, DoD, and the Air Force Audit Agency have conducted multiple reviews related to civilian payroll information, controls over the payroll process, and payroll expenses. Unrestricted Inspector General, DoD, reports can be accessed on the Internet at www.dodig.osd.mil/audit/reports. Unrestricted Air Force Audit Agency reports can be accessed on the Internet at www.afaa.hq.af.mil.

Inspector General, DoD

Inspector General, DoD, Report No. D-2000-156, "DoD Payroll Withholding Data for FY 1999," June 29, 2000

Appendix B. Summary of Errors

We identified 127 sample items that included one or more errors apiece, for a total of 201 errors, as shown.

| Sample Number | Agency | Net Dollar Amount Per Pay Period | Error(s) | Number of Errors | Annual Withholding Error in Dollars |
|---------------|--------|----------------------------------|---|------------------|-------------------------------------|
| 15 | AF | 57.13 | Late pay raise, FERS, TSP, life | 4 | 1,485.38 |
| 214 | AF | .16 | Life calculation error | 1 | 4.16 |
| 107 | AF | 8.07 | Health election not transmitted | 1 | 209.82 |
| 226 | AF | 34.79 | Health and life not documented | 2 | 904.54 |
| 1 | AF | 11.66 | TSP not documented | 1 | 303.16 |
| 240 | AF | .34 | Life insurance not documented | 1 | 8.84 |
| 167 | AF | 66.78 | Health election not transmitted | 1 | 1,736.28 |
| 182 | AF | 0 | Official Personnel File missing, no pay | 2 | 0 |
| 154 | AF | 93.57 | Missing life and health elections | 2 | 2,432.82 |
| 084 | AF | .47 | FERS calculation error | 1 | 12.22 |
| 178 | AF | 66.78 | Health election not transmitted | 1 | 1,736.28 |
| 133 | AF | 7.74 | Late pay increase, CSRS | 2 | 201.24 |

| Sample Number | Agency | Net Dollar Amount Per Pay Period | Error(s) | Number of Errors | Annual Withholding Error in Dollars |
|---------------|--------|----------------------------------|---------------------------------|------------------|-------------------------------------|
| 037 | AF | 73.63 | Health election not transmitted | 1 | 1,914.38 |
| 146 | AF | 11.67 | Health election not transmitted | 1 | 303.42 |
| 074 | AF | 70.04 | Health election not documented | 1 | 1,821.04 |
| 085 | AF | .46 | Life calculation error | 1 | 11.96 |
| 451 | Army | 41.18 | Health calculation error | 1 | 1,070.68 |
| 432 | Army | 66.78 | Health election not documented | 1 | 1,736.28 |
| 181 | Army | 148.56 | Invalid TSP election-blank part | 1 | 3,862.56 |
| 348 | Army | 30.40 | Pay not documented | 1 | 790.40 |
| 296 | Army | 63.83 | Health and life not transmitted | 2 | 1,659.58 |
| 007 | Army | 62.32 | Health election not documented | 1 | 1,620.32 |
| 212 | Army | 75.16 | TSP election not transmitted | 1 | 1,954.16 |
| 111 | Army | 117.59 | Health, life not documented | 2 | 3,057.34 |
| 347 | Army | 40.36 | TSP election not transmitted | 2 | 1,049.36 |
| 160 | Army | .15 | Life calculation error | 1 | 3.90 |

| Sample Number | Agency | Net Dollar Amount Per Pay Period | Error(s) | Number of Errors | Annual Withholding Error in Dollars |
|------------------|--------|----------------------------------|---|------------------|-------------------------------------|
| 469 | Army | 47.30 | Life election not documented | 1 | 1,229.80 |
| 150 | Army | .03 | CSRS calculation error | 1 | .78 |
| 395 | Army | 77.71 | Life election not documented | 1 | 2,020.46 |
| 3 | Army | 57.86 | Health election not transmitted | 1 | 1,504.36 |
| 435 | Army | 25.00 | TSP election shows \$25 less | 1 | 650.00 |
| 043 | Army | 36.74 | Health cancellation not transmitted | 1 | 955.24 |
| 128 | Army | 1.22 | FERS and FERS TSP off due to environmental differential | 2 | 31.72 |
| 204 | Army | 7.67 | Night Differential calculation FERS, TSP, life | 3 | 199.42 |
| 206 | Army | .30 | Life insurance calculation | 1 | 7.80 |
| 210 | Army | 4.20 | Life transmittal wrong, error | 1 | 109.20 |
| 062 | Army | 2.24 | Life calculation error | 1 | 23.66 |
| 493 | Army | 119.59 | Wrong SF50, pay, CSRS, TSP | 3 | 3,109.34 |
| 207 | Army | 96.47 | Late pay raise, FERS, TSP, life | 4 | 2,508.22 |
| R-3 ¹ | Army | 212.00 | TSP not documented | 1 | 5,512.00 |

¹ R stands for Replacement Sample Item

| Sample Number | Agency | Net Dollar Amount Per Pay Period | Error(s) | Number of Errors | Annual Withholding Error in Dollars |
|---------------|--------|----------------------------------|------------------------------------|------------------|-------------------------------------|
| 30 | Army | 25.00 | Life election not transmitted | 1 | 650.00 |
| 496 | Army | 30.94 | Health and life not documented | 2 | 804.44 |
| 38 | Army | 8.52 | Life election not transmitted | 1 | 221.52 |
| 43 | Army | 36.74 | Health election not transmitted | 1 | 955.24 |
| 392 | Army | 295.68 | TSP not documented | 1 | 7,687.68 |
| 112 | Army | 2.60 | Life election not documented | 1 | 67.60 |
| 243 | Army | 10.70 | Health election not transmitted | 1 | 278.20 |
| 47 | Army | 150.05 | TSP not documented | 1 | 3,901.30 |
| 511 | Army | 1.08 | Life calculation error | 1 | 28.08 |
| 305 | Army | 60.00 | TSP election not transmitted | 1 | 1,560.00 |
| 60 | Army | 40.00 | TSP election not transmitted | 1 | 1,040.00 |
| 133 | Army | 45.43 | Health election not transmitted | 1 | 1,181.18 |
| 61 | Army | 32.46 | Calculation errors life and health | 2 | 843.96 |
| 518 | Army | 35.68 | Wrong SF50, pay, FERS, TSP | 3 | 927.68 |

| Sample Number | Agency | Net Dollar Amount Per Pay Period | Error(s) | Number of Errors | Annual Withholding Error in Dollars |
|---------------|--------|----------------------------------|-----------------------------------|------------------|-------------------------------------|
| 386 | Army | 9.92 | Life waiver not documented | 1 | 257.92 |
| 66 | Army | 45.43 | Missing health cancellation | 1 | 1,181.18 |
| 065 | Army | .30 | Life calculation error | 1 | 7.80 |
| 195 | Army | .40 | Life election missing | 1 | 10.40 |
| 503 | Army | 73.34 | Wrong SF50, pay, CSRS, life | 3 | 1,906.84 |
| 80 | Army | 120.82 | Missing TSP and health elections | 2 | 3,141.32 |
| 259 | Army | 200.40 | Wrong SF50, missing life, health | 5 | 5,210.40 |
| 440 | Army | .15 | Life calculation error | 1 | 3.90 |
| 144 | Army | 4.68 | FERS and TSP calculation error | 2 | 121.68 |
| 457 | Army | .35 | Life calculation error | 2 | 9.10 |
| 120 | Army | 1.40 | TSP, life, FERS calculation error | 3 | 36.40 |
| 487 | Army | 126.52 | Health, TSP not transmitted | 2 | 3,289.52 |
| 378 | Army | 4.81 | Life waiver not transmitted | 1 | 125.06 |
| 328 | Army | .45 | Life calculation error | 1 | 11.70 |

| Sample Number | Agency | Net Dollar Amount Per Pay Period | Error(s) | Number of Errors | Annual Withholding Error in Dollars |
|---------------|--------|----------------------------------|--|------------------|-------------------------------------|
| 266 | Army | 79.42 | Health election not documented | 1 | 2,064.92 |
| 091 | DeCA | 2.30 | Life election not documented | 1 | 59.80 |
| 167 | DeCA | 12.65 | Health calculation error | 1 | 328.90 |
| 042 | DeCA | 6.90 | Life election not documented | 1 | 179.40 |
| 005 | DeCA | 6.93 | Calculation error FERS and TSP | 2 | 180.18 |
| 165 | DeCA | 15.88 | TSP not documented | 1 | 412.88 |
| 043 | DeCA | 47.15 | No SF50, pay, FERS, TSP, life | 4 | 1,225.90 |
| 142 | DeCA | 177.32 | Leave without pay, life | 3 | 4,610.32 |
| 155 | DFAS | 49.92 | TSP cancellation not transmitted | 1 | 1,297.92 |
| 030 | DFAS | 56.96 | Wrong SF50, pay, CSRS, life calculation errors | 3 | 1,480.96 |
| 056 | DISA | 40.50 | Life insurance calculation | 1 | 1,053.00 |
| 138 | DISA | 40.70 | Health election transmit wrong | 1 | 1,058.20 |
| 139 | DISA | 26.81 | Life election not documented | 1 | 697.06 |
| 021 | DLA | 12.91 | TSP not documented | 1 | 335.66 |

| Sample Number | Agency | Net Dollar Amount Per Pay Period | Error(s) | Number of Errors | Annual Withholding Error in Dollars |
|---------------|--------|----------------------------------|---|------------------|-------------------------------------|
| 086 | DLA | 40.82 | TSP not transmitted, life missing | 2 | 1,061.32 |
| 163 | DLA | 36.04 | Missing life and health elections | 2 | 937.04 |
| 038 | DLA | 5.74 | Life waiver ignored, transmittal | 1 | 149.24 |
| 029 | DoD | 31.68 | Late pay raise, FERS, life | 3 | 823.68 |
| 067 | DoD | .38 | Life insurance calculation | 1 | 9.88 |
| 145 | DoDEA | .57 | Life insurance calculation | 1 | 14.82 |
| 148 | DoDEA | 12.88 | Health transmittal wrong code | 1 | 334.88 |
| 022 | DoDEA | 1.58 | Life calculation error | 1 | 41.08 |
| 068 | DoDEA | 87.57 | TSP not documented | 1 | 2,276.82 |
| 023 | DoDEA | 123.60 | TSP election not documented | 1 | 3,213.60 |
| 113 | DoDEA | 278.28 | Ineligible FERS, TSP, health, life | 4 | 7,235.28 |
| 144 | DoDEA | 125.09 | Life and health elections not transmitted | 2 | 3,252.34 |
| 158 | DSS | 69.56 | Health not transmitted | 1 | 1,808.56 |
| 076 | DSS | 16.80 | Life election not transmitted | 1 | 436.80 |

| Sample Number | Agency | Net Dollar Amount Per Pay Period | Error(s) | Number of Errors | Annual Withholding Error in Dollars |
|---------------|----------------|----------------------------------|-----------------------------------|------------------|-------------------------------------|
| 035 | DSS | 69.44 | Wrong SF50, pay, FERS, TSP, life | 4 | 1,805.44 |
| 104 | National Guard | 104.55 | Late pay increase, CSRS, TSP | 3 | 2,718.30 |
| 069 | National Guard | .34 | Life transmittal wrong, error | 1 | 8.84 |
| 025 | National Guard | 30.52 | Health election not transmitted | 1 | 793.52 |
| 020 | Navy | 7.19 | CSRS calculation error | 1 | 186.94 |
| 091 | Navy | .50 | Life insurance calculation error | 1 | 13.00 |
| 202 | Navy | 9.30 | Retirement calculation error | 1 | 241.80 |
| 232 | Navy | 1.40 | Life transmittal wrong, error | 1 | 36.40 |
| 172 | Navy | 1.45 | Life transmittal wrong, error | 1 | 37.70 |
| 124 | Navy | .49 | Health transmittal wrong code | 1 | 12.74 |
| 013 | Navy | 22.17 | Health cancelled, not transmitted | 1 | 576.42 |
| 125 | Navy | 7.44 | Life waiver ignored | 1 | 193.44 |
| 17 | Navy | 19.78 | Late pay raise, CSRS, TSP | 3 | 514.28 |

| Sample Number | Agency | Net Dollar Amount Per Pay Period | Error(s) | Number of Errors | Annual Withholding Error in Dollars |
|---------------|--------|----------------------------------|---------------------------------|------------------|-------------------------------------|
| 102 | Navy | 11.75 | Calculation error CSRS and TSP | 2 | 305.50 |
| 088 | Navy | 88.20 | TSP not documented | 1 | 2,293.20 |
| 20 | Navy | 1.40 | Life election not transmitted | 1 | 36.40 |
| 104 | Navy | 2.07 | Calculation error CSRS,TSP,life | 3 | 53.82 |
| 086 | Navy | 73.34 | Late pay increase, CSRS, life | 3 | 1,906.84 |
| 106 | Navy | 24.05 | TSP election not transmitted | 1 | 625.30 |
| 176 | Navy | 87.60 | TSP election transmitted late | 1 | 2,277.60 |
| 153 | Navy | 22.13 | Health election not transmitted | 1 | 575.38 |
| 027 | Navy | 114.14 | Late SF50, pay, FERS,TSP,life | 4 | 2,967.64 |
| 156 | Navy | 1.42 | Life calculation error | 1 | 36.92 |
| 093 | Navy | 2.63 | Calculation error FERS,TSP,life | 3 | 68.38 |
| 054 | Navy | 143.60 | TSP election not transmitted | 1 | 3,733.60 |
| 237 | Navy | .35 | Life calculation error | 1 | 9.10 |
| 035 | Navy | 89.06 | Late SF50, pay,CSRS,TSP,life | 4 | 2,315.56 |

| Sample Number | Agency | Net Dollar Amount Per Pay Period | Error(s) | Number of Errors | Annual Withholding Error in Dollars |
|---------------|--------|----------------------------------|---------------------------------|------------------|-------------------------------------|
| 037 | Navy | 88.26 | Late pay increase, FERS, TSP | 4 | 2294.76 |
| 105 | Navy | 2.26 | CSRS and life calculation | 2 | 58.76 |
| 107 | Navy | 16.09 | Life election not documented | 1 | 418.34 |
| 054 | NIMA | 36.74 | Unauthorized withholding health | 1 | 955.24 |

AF United States Air Force
 DeCA Defense Commissary Agency
 DISA Defense Information Systems Agency
 DLA Defense Logistics Agency
 DoDEA Department of Defense Education Activity
 DSS Defense Security Service
 NIMA National Imagery and Mapping Agency

Appendix C. Statistical Sampling Methodology

Sampling Plan

Sampling Purpose. The purpose of the statistical sampling plan was to determine whether the retirement, health benefits, and life insurance withholdings and employee data that DoD submitted to OPM for FY 2000 were accurate and supported.

Universe Represented. The universe consisted of payroll records in the Defense Civilian Payroll System database from October 1, 1999, to September 30, 2000.

Sampling Design. A multi-stage sampling design was used. The first stage was stratified by pay periods. We randomly selected without replacement 4 pay periods, October 23, 1999; February 26, 2000; July 1, 2000; and September 9, 2000, out of 26 pay periods. A fifth pay period, April 22, 2000, which was required to be reviewed by OPM, was used as a census stratum. At the second stage, we stratified by payroll office. For the 4 pay periods selected to be reviewed from the first stage, we randomly selected 30 records from the payroll offices with greater than 30,000 but less than 100,000 records. Forty records were randomly selected from the payroll offices with greater than 100,000 records. The payroll offices with less than 30,000 records were combined and 40 records were randomly selected. A total of 1,200 records were reviewed from the 4 pay periods that were randomly selected from the first stage. For the April 22, 2000, pay period, we randomly selected 35 records from each of the 8 payroll offices with greater than 30,000 records. The sample for this pay period did not include payroll offices with less than 30,000 records. The total number of records randomly selected for review for the April 22, 2000, pay period was 280. Overall, we reviewed 5 pay periods and 1,480 records.

Sampling Results

Sample Results. We derived the following statistical estimate.

| | <u>90 Percent Confidence Interval</u> | | |
|---------------|---------------------------------------|-----------------------|--------------------|
| | <u>Lower Bound</u> | <u>Point Estimate</u> | <u>Upper Bound</u> |
| Gross Errors | \$59,197,992 | \$67,965,352 | \$76,732,711 |
| Record Errors | 1,342,061 | 1,591,439 | 1,840,816 |

We are 90 percent confident that the total gross absolute dollar error in the Defense Civilian Payroll System database is from \$59,197,992 to \$76,732,711 and the number of inaccurate records is between 1,342,061 and 1,840,816 in the Defense Civilian Payroll System database.

We calculated the percent of payroll records with errors to be between 7.8 percent and 10.7 percent with a point estimate of 9.29 percent. Our calculation was based on information obtained from the DFAS web page and confirmed by DFAS to be accurate. We calculated 17,134,000 payroll records were processed during the 26 pay periods for FY 2000 with Charleston processing 164,000 records per pay period, Denver 295,000, and Pensacola 200,000. We summed the payroll records processed for each location and multiplied the total 659,000 records by 26 pay periods.

We also derived the following one-tail statistical estimates.

| | <u>95 Percent Confidence Interval</u> | |
|-----------|--|------------------------------|
| | <u>Lower Bound</u> | <u>Point Estimate</u> |
| Gross Pay | \$4,946,216 | \$15,627,947 |
| CSRS | 320,140 | 798,283 |
| FERS | 60,863 | 974,391 |
| CSRS TSP | 304,240 | 2,084,276 |
| FERS TSP | 17,090,535 | 23,060,687 |
| Health | 12,067,956 | 19,497,565 |
| Life | 3,037,091 | 6,298,155 |

We are 95 percent confident that the absolute dollar error in the Defense Civilian Payroll System database is not less than the respective lower bound.

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Under Secretary of Defense for Personnel and Readiness

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Assistant Secretary of the Army (Manpower and Reserve Affairs)
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Manpower and Reserve Affairs)
Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Assistant Secretary of the Air Force (Manpower, Reserve Affairs, Installations, and Environment)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Commissary Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, Defense Information Systems Agency
Director, Defense Security Service
Director, National Imagery and Mapping Agency
Director, DoD Education Activity
Director, Civilian Personnel Management Services

Non-Defense Federal Organization

Office of Management and Budget
Office of Personnel Management

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

Department of the Navy Comments

Final Report
Reference



DEPARTMENT OF THE NAVY

OFFICE OF THE SECRETARY
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

1/15/2002

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on DoD Payroll Withholding Data for
FY 2000 (Project No. D2000FH-0130.001)

I would like to express my appreciation to your office for the opportunity to comment on the subject draft report. That document has been carefully reviewed, and specific responses on each alleged finding of error are provided for your use at enclosure (1).

(not included)

The draft report concludes that in 26 cases our Human Resources Service Centers (HRSCs) failed in some way to properly execute the personnel actions being audited. Our findings indicate that in 13 of those cases, the alleged errors either did not occur, or were attributable to processing failures by the Defense Finance and Accounting Service (DFAS), by other agencies, or by first line supervisors. I would appreciate your assistance in ensuring that those errors are not attributed to our HRSCs in the final report.

Pages 27-29

I request your support in reducing the lag time between the execution of these audits and the release of the draft reports for comment. Such reductions would enhance our ability to do a comprehensive and efficient job of ensuring the accuracy of these reports. I also recommend that some positive recognition be afforded our processing staffs in the final report. Such an approach need not minimize the fact that errors did occur, but instead would create a more balanced depiction of our overall processing efforts.

Page 12

On the matter of the recommended corrective actions, the Department of the Navy is already automating the benefits election process. We expect to have this Web-enabled system fully deployed across Navy by the third quarter of FY 2002. Lastly, we concur with the other recommendations contained in the report.

Page 12

I thank you and your staff for their work on this audit, and I commend their many efforts to minimize the disruption of on going operations that auditing always entails. If there are any questions regarding our response to the subject report, please contact Mr. Bruce Sorrell, Inspector General, Human Resources Operations Center. He can be reached at (202) 764-0862.

William A. Navas, Jr.
Assistant Secretary of the Navy
(Manpower and Reserve Affairs)

Attachment:

1. Department of the Navy Findings on Subject Draft

Department of the Air Force Comments

Final Report
Reference

Page 12

(not
included)



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS, UNITED STATES AIR FORCE
WASHINGTON, DC

12 4 JAN 2002

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE
OFFICE OF THE INSPECTOR GENERAL, DOD


FROM: HQ USAF/DPFC
1040 Air Force Pentagon
Washington DC 20330-1040

SUBJECT: Audit Report on DoD Payroll Withholding Data for FY 2000
(Project No. D2000FH-0130.001) (Your Memo, 9 November 2001)

This memorandum replaces DPFC Memo, dated 10 Jan 2002, same subject. Thank you for the opportunity to review your draft audit report on the DoD Payroll Withholding Data for FY 2000. We have reviewed the draft audit report and concur with your findings and recommendations. We concur with your recommendation that the Military Departments should complete the process of automating payroll elections to improve the accuracy and data retention and that Defense agencies should start such a process. In fact, the Office of Personnel Management will be implementing a government-wide "clearinghouse" system in June 2002 for health insurance reconciliation called Centralized Enrollment Reconciliation (CLER). Air Force will be participating in the quality assurance testing which begins 22 January 2002. In addition, HQ USAF and Air Force Personnel Center (AFPC) representatives will be attending CLER training during the week of 14 Jan 2002. See <http://sig.nfc.usda.gov/cler> for more information.

We concur that the Military Departments and Defense agencies should improve the processing of withholding documents and we have made every effort to correct the errors in our personnel files discussed in this report. With Defense agencies migrating to the Modern Defense Civilian Personnel Data System and with electronic programs such as our electronic Official Personnel File (OPF), Personnel Automated Records Information System (PARIS), the Air Force continues to lead the way in automating and improving systems. See <http://www.afpc.randolph.af.mil> for more information on the "Modern" system. Further, we also concur that the Military Departments report the results of their internal reviews of civilian personnel documents and data in terms of performance measures for assessing the accuracy of payroll withholding. We will provide this recommendation to our supervisors at AFPC as well as the HQ USAF performance management program manager.

Our comments and corrective actions for each error cited with estimated/actual completion dates are attached. Many of the errors annotated have already been corrected and we have provided documentation to that effect. Any errors that were not immediately corrected were reviewed for appropriate corrective action and an estimated completion date is provided. We appreciate your bringing these cases to our attention and look forward to working with you on future audits. My point of contact for this review is Ms. Lynda Lake at 703-695-7381.


MARY C. JOHNSON
Chief, Civilian Policy Division
Directorate of Personnel Force Management

Attachment:
Air Force Error Correction Summary
w/ Supportive Documentation

cc:
HQ AFPC/DPFCMB
72 SPTG/DPC
DFAS-HQ/FMP
HQ USAF/DPFC (Bonnie Roberts)

Defense Logistics Agency Comments

Final Report
Reference



Y
R TO J-3

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060-6221


JAN 7 2002

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
DEPARTMENT OF DEFENSE

SUBJECT: DoD Payroll Withholding Data for FY 2000, Project No. D2000FH-0130.001

This is in response to the subject draft report dated November 9, 2001. If you have any questions, please contact Mrs. Peggy Hayes, (703) 767-6262.

Encl


PEGGY HAYES
J-308 DDAI
Internal Review Office

SUBJECT: DoD Payroll Withholding Data for FY 2000 Project No. D2000FH-0130.001

FINDING: DoD Payroll Personnel Records. Documents to authorize payroll withholdings that are maintained in personnel files do not agree with the amounts withheld by DFAS. The lack of support occurred because personnel offices in Military Departments and Defense agencies did not have adequate controls over data that support the accuracy of the payroll amounts withheld. The personnel offices did not complete the process of automating payroll elections. Without an automated payroll elections system, forms prepared were often incomplete and personnel payroll data were not always transmitted promptly to DFAS. In addition, data supporting payroll withholding elections were not always retained in personnel files. As a result of the lack of controls, payroll withholding was statistically estimated to be \$68 million different than indicated in official personnel files. The statistically projected error rate from the sample is 9.29 percent. The statistically projected number of records in error (had one or more deficiencies in gross pay or withholding) is 1.59 million out of 17.1 million payroll records in the Defense Civilian Payroll System database (see Appendix C for Statistical Sampling Methodology).

RECOMMENDATION 2a: Improve the accuracy and timeliness of processing payroll withholding authorizations:

RESPONSE: DLA recognizes the significance of the findings and considers unacceptable any error in an individual's pay or benefits. We have taken significant steps to reduce the likelihood of the problems identified in this subject. As part of a DoD consortium, we have implemented the telephone based Interactive Voice Response System (IVRS) and the web based Employee Benefits Information System (EBIS), enabling our serviced customers to complete changes to their health, life, and Thrift Savings Plan (TSP) programs directly during authorized periods. In the latest health benefits open season, 59% of the changes were made directly by employees using these systems. The result is an automated transmission to the health plan carrier as well as direct update of the Modern Defense Civilian Personnel Data System (MDCPDS) and it's resulting feed to the Defense Civilian Pay System (DCPS). For the current TSP open season ending in January 2002, 67% of the changes that have been processed to date occurred through EBIS and IVRS. Over 11,000 of DLA's serviced customer base of 36,000 employees have established accounts in the system. While DLA will not eliminate hard-copy submissions in the near future, improved marketing and continued enhancements to the systems are expected to increase the percentage of employee-initiated changes. DLA implemented the MDCPDS in September 2001. While we cannot attribute to MDCPDS any direct improvement in the accuracy of transmissions to payroll, we are operating at the level mandated by DoD and expect continuing improvements as the system matures. Because of the interface required between the personnel and payroll system there will continue to be a small number of reconciliation errors that must be managed by human intervention. DLA is accomplishing this through diligent working of reject reports, the requirement of 100% DCPS reviews for every personnel action, and the standard MDCPDS/DCPS reconciliation process. In addition, DLA will implement an electronic personnel file in the fourth quarter of 2002 that will receive automated feeds of the key authorizing documents from EBIS, IVRS and MDCPDS, eliminating manual filing. Together these steps, along with increasing staff experience and education, have resulted in improved accuracy and timeliness of the payroll withholding authorizations.

DISPOSITON:

Partial Concurrence. Rationale for partial concurrence: Systemic issues

(primarily lack of up-front input validation and error handling differences within personnel and pay systems) prevent 100% integration between personnel and payroll. In accordance with our response narrative above, DLA is taking aggressive action to utilize the available automated systems and is following all guidelines for ensuring proper personnel/payroll interface and document disposition. Action is ongoing. ECD: fourth quarter of 2002

Page 14

RECOMMENDATION 2b: Correct the errors in personnel files discussed in this report (see Appendix b for specific errors identified):

RESPONSE: Concur. The four employees identified in the report have been identified through the cooperation of the DoD IG representatives. Each employee record has been researched and corrections made.

Page 16

DISPOSITON:

Action is considered complete.

Internal Management Control Weakness:

Concur. The four records in error represent a statistical potential for others within our serviced population. DLA would expect the error rate to be lower today because of the implementation of the EBIS and IVRS systems. However, because of the importance of the program areas; the volume of transactions; and the system validation and integration issues; increased vigilance is warranted. The DLA Human Resource Operations Center (HROC) is adding the subject program areas to their formal Management Control program. Management Control program to be initiated in second quarter FY2002. Action is ongoing.

ACTION OFFICER: James Storms, HROC-AI

APPROVAL: Janet Hoffheins, Deputy Director, J-1

Defense Commissary Agency Comments

Final Report
Reference

DEFENSE COMMISSARY AGENCY
HEADQUARTERS
1300 E AVENUE
FORT LEE, VIRGINIA 23801-1800

DEC 27 2001

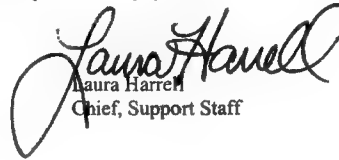
SSI

MEMORANDUM FOR INSPECTOR GENERAL, FINANCE AND ACCOUNTING
DIRECTORATE, 400 ARMY NAVY DRIVE, ARLINGTON, VA
22202-2884

SUBJECT: Audit Report on DoD Payroll Withholding Data for FY 2000 (Project No.
D2000FH-0130.001)

Reference: Memorandum, DoDIG, November 9, 2001, SAB

Attached is the DeCA reply to the recommendations provided in subject report. Please
contact Mr. Ben Mikell at (804) 734-8103 if you have any questions.


Laura Harren
Chief, Support Staff

Attachment:
As stated

DEFENSE COMMISSARY AGENCY REPLY
Audit Report on DoD Payroll Withholding Data for FY 2000
(Project No. D2000FH-0130.001)

ADDITIONAL COMMENTS TO DRAFT REPORT:

DeCA's consolidation of CONUS personnel servicing into one central location in Alexandria, VA in November 1999 has improved the processing of all personnel actions and, most importantly, of those affecting pay. The CONUS consolidation into the Human Resources Operations Division gives us the opportunity to perform more efficiently, and that is what we have done. Errors occur when employees are worked outside of their assigned and approved work schedules. When an employee is worked more or less hours without the proper paperwork, someone has to "fix" the problem – that's a pay error. When employees are worked prior to appointment – that's a pay error. This is a continuing trouble point for this Agency. Because there is no connectivity between the pay and personnel systems, errors are likely to continue to occur until this DoD-wide problem is corrected.

Page 13

Automating some of the benefits processes, so that employees are held responsible for their own elections and updates, will help reduce pay errors, but will not fix all the types of problems that occur, for instance, in Case 167 where changes in work schedules and hours are not properly documented. While it is true that automating the election process might eliminate some errors, our health benefits issues occur primarily because of changes in schedule or changes in hours, not because of initial elections or changes to elections. The personnel and accounting offices can not recalculate and monitor all entitlements, but does coordinate with DFAS to monitor payroll actions. When pay information is transmitted to DFAS, the payroll system determines the withholding amount.

Page 13

RECOMMENDATION 2.a. Improve the accuracy and timeliness of processing payroll withholding authorizations.

DeCA REPLY. Concur. We will issue operating guidance to our activities to improve management accountability for pay and personnel records. The target date for issuing the guidance is April 1, 2002.

Page 13

RECOMMENDATION 2.b. Correct the errors in personnel files discussed in this report.

DeCA REPLY. Concur. We will examine the records for the seven individuals and correct the applicable errors by February 28, 2002.

Page 15

Defense Finance and Accounting Service Comments

Final Report
Reference



DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291
WWW.DFAS.MIL



JAN 25 2002

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE

SUBJECT: DoD IG Draft Report, Project No. D2000FH-0130.001, "DoD Payroll
Withholding Data FY 00," dated 11/09/01

Our response to the subject audit is attached. The point of contact is Mr. Howard Locke,
(317) 510-7363 or DSN 699-7363.

Ronald R. Crain
Director, Human Resources

Attachment:
As stated

cc
DFAS-DDI
DFAS-PX-E

**REQUESTED COMMENTS TO DODIG DRAFT AUDIT REPORT "DOD PAYROLL
WITHHOLDING DATA FY 00", PROJECT NO. D2000FH-0130.001**

Recommendation 2a: We recommend that ... the Director, Defense Finance and Accounting Service improve the accuracy and timeliness of processing payroll withholding authorizations.

The following initiatives address improving the accuracy and timeliness of processing payroll withholding authorizations:

- **Personnel Action Timeliness Report.** This report distributed quarterly. It contains information concerning the number and type of personnel actions received and processed in and for the current pay period and retro pay periods. Relative percentages for each category are reported to assist the personnel community in identifying problem areas.
- **Time and Attendance Timeliness Report.** This report is a future initiative. Late time and attendance entries will be quantified, categorized and reported to the customer for their use. This report will assist the customer to identify areas that are causing delays and inaccurate reporting.
- **Effective December 2, 2001, DCPS implemented Phase II of the Employee/Member Self Service** allowing the individual to input State tax withholding, savings bonds elections, additional Federal tax changes and to view/print W2 for current year. This initiative will provide more timely and accurate update of withholding data.
- **Effective December 2, 2001, DCPS implemented a System Change Request (SCR) X5254** allowing the daily pro-ration of withholding for Federal Group Life Insurance (FGLI) and Federal Employees Health Benefit premiums. This brings DCPS in compliance with Office of Personnel regulations.
- **SCR- X8418** has been written to correct a system error in calculation of FGLI when shift differential is reported for the last hour of the pay period. Implementation of this SCR will improve the accuracy of withholding.
- **SCR- X8381** has been written to correct a system error in calculation of FGLI when environmental differential is reported for the last hour of a tour. Implementation of this SCR will improve the accuracy of withholding.

Pages 13-14

Page 14

Page 14

POC: Norma Jolly, DFAS-PSC/PE, (850) 453-4141 x565

**REQUESTED COMMENTS TO DODIG DRAFT AUDIT REPORT "DOD PAYROLL
WITHHOLDING DATA FY 00", PROJECT NO. D2000FH-0130.001**

Recommendation 2b: We recommend that ... the Director, Defense Finance and Accounting Service correct the errors in personnel files discussed in this report.

The following DFAS Human Resources initiatives will improve both the accuracy and timeliness of payroll withholding for employee benefits:

- DFAS Human Resources is implementing an aggressive data integrity program to identify, correct, and prevent future modern DCPDS data errors. This effort will require the Regional Service Center, the Customer Support Units, and the individual employees to periodically review important data elements and identify errors to be corrected.
- DFAS Human Resources implemented the modern Defense Civilian Personnel data systems in April 2000 and has implemented the DoD Electronic Benefits Information System (EBIS). EBIS allows DFAS employees to electronically submit benefits transactions to the modern DCPDS.
- DFAS Human Resources will correct the two records identified in Appendix B.

POC: Howard Locke, DFAS-RSC, (317) 510-7363.

National Imagery and Mapping Agency Comments

Final Report
Reference



NATIONAL IMAGERY AND MAPPING AGENCY
4600 SANGAMORE ROAD
BETHESDA, MARYLAND 20816-5003

16 JAN 2002

U-288-01/IG

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
(ATTENTION: DIRECTOR, FINANCE AND ACCOUNTING
DIRECTORATE)

SUBJECT: Draft Audit Report on DoD Payroll Withholding
Data for FY 2000 (Project No. D2000FH-0130.001)

REFERENCES: a. DoD IG memorandum, 9 November 2001, subject
as above
b. DoD Directive 7650.3, 5 September 1989,
subject: Follow-up on General Accounting
Office, DoD Inspector General, and Internal
Audit Reports

1. The National Imagery and Mapping Agency (NIMA) has reviewed the subject report provided by reference a. We appreciate the opportunity to respond to the recommendations. The enclosure provides our comments prepared in conformance to the requirements of reference b.

2. Should you have any questions regarding our response, please contact Ms. Lenore Guthrie, NIMA External Audit Liaison, Policy, Oversight and Investigations Division, Office of Inspector General at (301) 227-0711.

A handwritten signature in dark ink, appearing to read "James R. Clapper, Jr.", is positioned above the typed name and title.

JAMES R. CLAPPER, JR.
Lieutenant General, USAF (Ret.)
Director

Enclosure a/s

**NIMA RESPONSE TO THE AUDIT REPORT ON DoD PAYROLL
WITHHOLDING DATA FOR FY 2000 (Project No. D2000FH-0130.001)**

Comments to the Report Recommendations.

Recommendation 2. We recommend that the Director, Defense Logistics Agency; the Director, DoD Education Activity; the Director, Defense Finance and Accounting Service; the Director, Defense Commissary Agency; the Director, National Imagery and Mapping Agency; and the Director, Defense Security Service:

a. Improve the accuracy and timeliness of processing payroll withholding authorizations.

NIMA Response. We concur with the recommendation. The actual error identified in the report was the result of not maintaining proper documentation in an employee's Official Personnel File (OPF) to support a health benefit change. Specifically, a copy of a voided Standard Form (SF) 2809, *Employee Health Benefits Election Form*, to support the change, was not on file as required by the Office of Personnel Management (OPM). NIMA identified and corrected a discrepancy (dual health insurance coverage) in March 2000 that resulted in the voided SF 2809. In the future, NIMA Human Resources Directorate (HR) will ensure adherence to OPM guidance for voiding erroneous health benefit actions. To void (cancel) an action, we will mark "VOID" in bold letters on the OPF and payroll office copies of the SF 2809 and explain the action in the Remarks section. A copy of the voided SF 2809 will be maintained in the employee's OPF and copies also will be forwarded to the payroll office and the FEHB (Federal Employee Health Benefit) carrier. NIMA HR will ensure timely, appropriate action is taken to void the action in the payroll system by reviewing the employee record in the Defense Finance Accounting Service (DFAS)-Defense Civilian Payroll System (DCPS).

Effective 1 November 2001, we now attach an information sheet (*copy provided as an attachment*) to the employee copy of the SF 2809, advising the employee to review his/her Leave and Earnings Statement to ensure recent changes are accurately reflected.

Enclosure

As part of the agreement between DFAS and the agencies for which they provide payroll servicing, mandatory reconciliations are required three times per year between the DFAS-DCPS and the Agency personnel system. At Agency discretion, reconciliations can occur monthly. NIMA chooses to complete monthly reconciliation as a vehicle to identify discrepancies in a more timely manner between the Defense Civilian Payroll System (DCPS) and the NIMA personnel (Peoplesoft) databases. This reconciliation will identify any changes to employee records processed in the HR Peoplesoft personnel system, but not in the DCPS. Our latest reconciliation shows an error rate at less than one percent (.000075).

Target Completion Date: Reconciliations remain ongoing; however, we consider the corrective actions taken satisfy the intent of the recommendation. Accordingly, for reporting purposes, we consider this recommendation closed.

b. Correct the errors in personnel files discussed in the report (see Appendix B (page 23) of the report for specific errors identified).

NIMA Response. We concur with the recommendation. The NIMA error identified in the audit report was the result of dual health insurance coverage, not "unauthorized withholdings" as stated in the report. Specifically, two NIMA employees, both enrolled in FEHB "self only", married and the husband changed his enrollment to "family" resulting in dual enrollment for his wife. As a result, they were concurrently using two types of health insurance. As indicated above, in March 2000, HR identified the discrepancies and took corrective action to resolve them. Although SF 2809 was initiated to change health benefits withholding, a copy of the voided SF 2809 to support the change was not retained in the employee's OPF. NIMA HR recreated the SF 2809 supporting FEHB deductions for the identified employee record and filed it in the appropriate OPF.

To preclude future such incidents, HR will conduct annual random reviews of OPFs to ensure SF 2809s have been properly maintained.

Target Completion Date: Action to recreate the documentation was completed on 27 December 2001. For reporting purposes, we consider this recommendation closed.

Defense Information Systems Agency Comments

Final Report
Reference



DEFENSE INFORMATION SYSTEMS AGENCY
701 S. COURTHOUSE ROAD
ARLINGTON, VIRGINIA 22204-2199

IN REPLY

REFER TO: INSPECTOR GENERAL (IG)

18 December 2001

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Response to DOD IG Draft Report,
Audit Report on DOD Payroll Withholding
Data for FY 2000, Project D2000FH-0130.001

1. The enclosed comments provide the coordinated response from the Defense Information Systems Agency on the DOD IG Project referenced above.
2. If you have any questions, please call Teddie Lou Steiner, Audit Liaison, at (703) 607-6316 or Liz Lippmann, Audit Liaison, at (703) 607-6306.

FOR THE DIRECTOR:

Enclosure a/s


RICHARD T. RACE
Inspector General

DOD IG Draft Audit Report
DOD Payroll Withholding Data for FY 2000
Project No. D2000FH-0130.001

Defense Information Systems Agency (DISA) Comments to the Recommendations:

Recommendation #2a. We recommend that the Director, Defense Information Systems Agency improve the accuracy and timeliness of processing payroll withholding authorizations.

DISA's Response: DISA implemented the DOD Employee Benefits Information System (EBIS) Fall 2001. EBIS is a web application that allows employees to access general and personal benefits information using a computer. Using EBIS, employees are able to make FEHB, FEGLI, and TSP elections electronically. The elections flow electronically to the MDCPDS and DCPS. EBIS provides a receipt to the employee and establishes an electronic record. Deployment of EBIS is expected to substantially improve the processing of withholding documents and prevent errors associated with filing or loss of hardcopy documents.

Page 14

Recommendation #2b. We recommend that the Director, Defense Information Systems Agency correct the errors in personnel files discussed in this report.

DISA's Response: Non-concur with findings. DISA forwarded the three errors identified in the report to the DFAS Regional Service Center (RSC), Personnel Support Organization (PSO) in Indianapolis, Indiana, for a review of the Official Personnel Files (OPF), correction of documents as required and a determination of the reason for the error. A review of the files does not support the DODIG findings. DFAS provides the following information concerning the 3 items identified in the DOD IG report.

Page 15

#056

Error: Life Insurance Calculation

The employee is currently enrolled in FEGLI code N1, which agrees with both the pay and personnel systems and the employee's election form in his OPF. The pay deductions from the payroll system DCPS for pay period ending 12/01/01 were reviewed and the appropriate deductions were taken from the employee's pay.

DOD IG Draft Audit Report
DOD Payroll Withholding Data for FY 2000
Project No. D2000FH-0130.001

Insurance and Deductions from payroll:

| | |
|----------------------------|---------|
| Basic = \$95.000 x .1550 = | \$14.73 |
| Option A = | 1.40 |
| Option B = \$186.000 x .15 | 27.90 |
| Option C = | .90 |
| | <hr/> |
| | 44.93 |

#138

Error: Health election transmit wrong

The personnel and payroll systems indicate employee is enrolled in Code 451, Mail Handlers. This election agrees with the SF-2809 that was filed in the OPF (SF-2809 was filed on the left side rather than on the right side). Corrective action taken was to file the SF-2809 on the right side.

#139

Error: Life election not documented

The employee retired 12/01/01. All FEGLI election forms were filed in the OPF. Since all FEHB and FEGLI forms are pulled to photocopy and the originals are sent to OPM with the retirement action, it is possible that the clerk had already pulled the FEGLI forms for copying when the IG Team requested the OPF for review.

Additional comment:

The DFAS RSC PSO Benefits Team audits the records of employees who transfer from other Federal agencies after the OPF is received. This should reduce the instances of continuation of errors that occurred at a previous Federal employer.

Civilian Personnel Management Service Comments

Final Report
Reference



FORCE MANAGEMENT
POLICY

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, DC 20301-4000

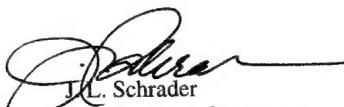
14 JAN 2002

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF THE
INSPECTOR GENERAL, FINANCE AND ACCOUNTING
DIRECTORATE

Subject: Draft of a Proposed Audit Report on DoD Payroll Withholding Data for
FY 2000 (Project No. D2000FH-0130.001)

Attached are comments from the Civilian Personnel Management Service (CPMS) on the subject draft audit report. CPMS is the proponent for the modern Defense Civilian Personnel Data System (DCPDS), the automated human resources information system used throughout the Department. Payroll data flow between the modern DCPDS and the DoD payroll system, the Defense Civilian Pay System (DCPS). As a result of the interface of data between these two systems, CPMS is very concerned with issues and problems related to the flow, accuracy, and timeliness of this information.

We appreciate the opportunity to provide our comments. My point of contact is Ms. Cheryl Fuller at (703) 696-1982.


J.L. Schrader
Acting Deputy Assistant Secretary
Civilian Personnel Policy

Attachment:
As stated

**Civilian Personnel Management Service
Comments on
Audit Report on DoD Payroll Withholding Data for FY00
Project No. D2000FH-0130.001
January 10, 2002**

- The Civilian Personnel Management Service (CPMS) is currently pursuing a joint initiative with the Defense Finance and Accounting Service (DFAS) to determine if there is a modern payroll system that can work with the modern Defense Civilian Personnel Data System (DCPDS). We anticipate that this initiative could eliminate most of the errors and delays created by the current process of maintaining two separate databases and interchanging data between DCPDS and the Defense Civilian Pay System (DCPS).
- A consortium of agencies in conjunction with the Office of Personnel Management (OPM) is pursuing a government-wide initiative called the Human Resources Data Network (HRDN) that will require the electronic submission of employee benefit election forms. HRDN is projected to begin operations in two years.
- Although we concur that increased automation of employee Thrift Saving Plan, Health Benefits, and Life Insurance elections will reduce errors caused by delayed or erroneous input, we do not anticipate the total elimination of paper copy elections in the immediate future. Not every employee has immediate access to an IVRS (phone) or EBIS (web) benefit administration process. Additionally, there are accessibility and employee union issues.
- Although the report is dated November 2001, data were collected during five pay periods in the October 1999 through September 2000 timeframe. Currently, the Military Departments and many of the Defense agencies have implemented or are in the process of implementing IVRS/EBIS. This occurred in the last year. Consequently, the information is outdated and the recommendation to automate employee benefit elections has largely been accomplished.
- The draft audit report concludes that civilian personnel offices did not have adequate controls to ensure accurate calculation of gross pay and payroll withholding amounts and do not retain documentation supporting the accuracy of payroll amounts withheld. The responsibility to ensure the accuracy of gross pay calculations, withholding calculations, and net pay calculation rests with the payroll office, not the civilian personnel office. The civilian personnel offices determine basic pay (as an annual, daily, or hourly amount), and authorize any supplements to pay (e.g., overseas allowances, danger pay, shift differential) or one-time payments (e.g., awards, special payments).

Page 10

Page 10

**Civilian Personnel Management Service
Comments on
Audit Report on DoD Payroll Withholding Data for FY02
Project No. D2000FH-0130.001
January 10, 2002**

- The computation of gross pay, deductions (both employee initiated withholding elections and mandatory deductions such as federal tax and social security), and net pay is based on authorizations from the civilian personnel office, time cards from the employing agency, and payroll business rules administered by the Defense Finance and Accounting Service (DFAS). It is the responsibility of DFAS, not the civilian personnel offices, to support these computations and retain the documentation for audits of these amounts.
- There are misstatements in the report. On page 4, under the Communication paragraph, after listing several errors, the conclusion is: "Successfully automating communication of payroll withholding elections to the Defense Civilian Pay System could reduce this type of error." Communication of payroll withholding elections to DCPS is already automated. Other than the W4, no paperwork is faxed or sent to payroll. Elections of FEHB, TSP, and FEGLI, along with the retirement plan, are input through DCPDS and flow through the payroll interface. The general practice is that the payroll offices will not accept faxed copies of these types of documents.
- On page 9, the audit report indicates that Army deployed the modern DCPDS at 7 of its 10 regional Civilian Personnel Operations Centers (CPOC) during FY 2000. Army only deployed the modern DCPDS to 1 CPOC in FY 2000. Modern DCPDS was deployed to an additional 7 Army CPOCs in FY 2001 and 2 Army CPOCs in FY 2002.
- On page 9, the audit report indicates that Navy deployed the modern DCPDS at its regional Human Resource Service Centers (HRSCs) during FY 2000. Navy only deployed the modern DCPDS to 1 HRSC in FY 2000. Modern DCPDS was deployed to an additional 6 HRSCs in FY 2001 and 1 HRSC in FY 2002.

Page 11

Page 11

Revised
Page 9

Revised
Page 9

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for auditing, DoD, prepared this report. Personnel of the Office of the Inspector General, DoD, who contributed to the report are listed below.

Paul J. Granetto
Richard Bird
David F. Vincent
Thomas J. Winter
Joseph A. Powell
Jonathan M. Rabben
Frank Sonsini
Lusk Penn
James Hartmann
Lisa Y. Johnson
Alberto T. Rodriguez
Alejandra Rodriguez
Fred R. McComas
Lisa DiCamillo
Joseph Bilock
Mark Heim

Personnel of the Defense Finance and Accounting Service, Internal Review, who also contributed to the report are listed below.

James J. Cornell
David P. Smith
Gary L. Nelson
Kimberly Goins
Ron Sulzberger
William C. King
SFC Althea Childs
Alfred Hanak
Gwenna Zacchini